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IN THE MATTER OF THE
APPLICATION OF TUCSON ELECTRIC
POWER COMPANY FOR APPROVAL
OF ITS 2011-2012 ENERGY
EFFICIENCY IMPLEMENTATION
PLAN

Docket No. E-01933A-11-0055

NOTICE OF FILING DIRECT
TESTIMONY OF KEVIN C.
HIGGINS ON BEHALF OF
FREEPORT-MCMORAN COPPER &
GOLD INC. AND ARIZONANS FOR
ELECTRIC CHOICE AND
COMPETITION

Freeport-McMoRan Copper & Gold, Inc. (Freeport-McMoRan) and Arizonans for
Electric Choice and Competition (AECC) (collectively "AECC") hereby submit the Direct
Testimony of Kevin C. Higgins on behalf of AECC in the above captioned Docket.

RESPECTFULLY SUBMITTED this 15th day of June 2012.

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By

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2 **FILED** this 15th day of June 2012 with:

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6 Phoenix, Arizona 85007

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7047845

BEFORE THE ARIZONA CORPORATION COMMISSION

In the Matter of the Application of Tucson)
Electric Power Company for Approval of Its)
2011-2012 Energy Efficiency)
Implementation Plan)

Docket No. E-01933A-11-0055

Direct Testimony of Kevin C. Higgins

on behalf of

Freeport-McMoRan Copper & Gold Inc. and

Arizonans for Electric Choice & Competition

June 15, 2012

DIRECT TESTIMONY OF KEVIN C. HIGGINS

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1 **DIRECT TESTIMONY OF KEVIN C. HIGGINS**

2

3 **INTRODUCTION**

4 **Q. Please state your name and business address.**

5 A. Kevin C. Higgins, 215 South State Street, Suite 200, Salt Lake City, Utah,
6 84111.

7 **Q. By whom are you employed and in what capacity?**

8 A. I am a Principal in the firm of Energy Strategies, LLC. Energy Strategies
9 is a private consulting firm specializing in economic and policy analysis
10 applicable to energy production, transportation, and consumption.

11 **Q. On whose behalf are you testifying in this proceeding?**

12 A. My testimony is being sponsored by Freeport-McMoRan Copper & Gold
13 Inc. and Arizonans for Electric Choice and Competition ("AECC"). AECC is a
14 business coalition that advocates on behalf of retail electric customers in
15 Arizona.¹

16 **Q. Please describe your professional experience and qualifications.**

17 A. My academic background is in economics, and I have completed all
18 coursework and field examinations toward the Ph.D. in Economics at the
19 University of Utah. In addition, I have served on the adjunct faculties of both the
20 University of Utah and Westminster College, where I taught undergraduate and
21 graduate courses in economics. I joined Energy Strategies in 1995, where I assist

¹ Henceforth in this testimony, Freeport-McMoRan Copper & Gold Inc. and AECC collectively will be referred to as "AECC."

1 private and public sector clients in the areas of energy-related economic and
2 policy analysis, including evaluation of electric and gas utility rate matters.

3 Prior to joining Energy Strategies, I held policy positions in state and local
4 government. From 1983 to 1990, I was economist, then assistant director, for the
5 Utah Energy Office, where I helped develop and implement state energy policy.
6 From 1991 to 1994, I was chief of staff to the chairman of the Salt Lake County
7 Commission, where I was responsible for development and implementation of a
8 broad spectrum of public policy at the local government level.

9 **Q. Have you testified before this Commission in other dockets?**

10 A. Yes. I have testified in a number of proceedings before this Commission,
11 including the generic proceeding on retail electric competition (1998),² the
12 hearings on the Arizona Public Service Company ("APS") 1999 Settlement
13 Agreement (1999),³ the hearings on the Tucson Electric Power ("TEP") 1999
14 Settlement Agreement (1999),⁴ the AEPCO transition charge hearings (1999),⁵
15 the Commission's Track A proceeding (2002),⁶ the APS adjustment mechanism
16 proceeding (2003),⁷ the Arizona ISA proceeding (2003),⁸ the APS 2004 rate case
17 (2004),⁹ the Trico 2004 rate case (2005),¹⁰ the TEP 2004 rate review (2005),¹¹ the
18 APS 2006 interim rate proceeding (2006),¹² the APS 2006 rate case (2006),¹³

² Docket No. RE-00000C-94-0165.

³ Docket Nos. RE-00000C-94-0165, E-01345A-98-0471, and E-01345A-98-0473.

⁴ Docket Nos. RE-00000C-94-0165, E-01933A-97-0772, and E-01933A-97-0773.

⁵ Docket No. E-01773A-98-0470.

⁶ Docket Nos. E-00000A-02-0051; E-01345A-01-0822; E-00000A-01-0630; E-01933A-02-0069; E-01933A-98-0471.

⁷ Docket No. E-01345A-02-0403.

⁸ Docket No. E-00000A-01-0630.

⁹ Docket No. E-01345A-03-0437.

¹⁰ Docket No. E-01461A-04-0607.

¹¹ Docket No. E-01933A-04-0408.

¹² Docket No. E-01345A-06-0009.

1 TEP's request to amend Decision No. 62103 (2007),¹⁴ the TEP 2007 rate case
2 (2008),¹⁵ the APS 2008 rate case (2008),¹⁶ and the APS 2011 rate case (2011).¹⁷

3 **Q. Have you testified before utility regulatory commissions in other states?**

4 A. Yes. I have testified in approximately 140 other proceedings on the
5 subjects of utility rates and regulatory policy before state utility regulators in
6 Alaska, Arkansas, Colorado, Georgia, Idaho, Illinois, Indiana, Kansas, Kentucky,
7 Michigan, Minnesota, Missouri, Montana, Nevada, New Mexico, New York,
8 North Carolina, Ohio, Oklahoma, Oregon, Pennsylvania, South Carolina, Texas,
9 Utah, Virginia, Washington, West Virginia, and Wyoming. I have also
10 participated in various Pricing Processes conducted by the Salt River Project
11 Board and have filed affidavits in proceedings at the Federal Energy Regulatory
12 Commission.

13
14 **OVERVIEW AND CONCLUSIONS**

15 **Q. What is the purpose of your direct testimony?**

16 A. I am testifying in support of the Proposed Updated Energy Efficiency
17 ("EE") Implementation Plan ("Updated Plan") filed by TEP on May 2, 2012. The
18 Updated Plan provides a balanced and reasonable resolution of the ongoing
19 disagreements concerning the scope and cost of TEP's 2012-2013 EE program.

20 **Q. What is your recommendation to the Commission with respect to the**
21 **Updated Plan?**

¹³ Docket No. E-01345A-05-0816.

¹⁴ Docket No. E-01933A-05-0650.

¹⁵ Docket No. E-01933A-07-0402.

¹⁶ Docket No. E-01345A-08-0172.

¹⁷ Docket No. E-01345A-11-0224

1 A. I recommend that the Updated Plan be approved by the Commission. In
2 my opinion, approval of the Updated Plan is reasonable and in the public interest.

3 I note that in supporting approval of the Updated Plan, AECC is not
4 intending to waive the ability of any individual AECC member (or any other
5 customer) from seeking a waiver or exemption from the Commission with respect
6 to participating in and funding TEP EE programs. Any such requests should be
7 considered on their particular merits.

8

9 **UPDATED PLAN**

10 **Q. Please provide a general overview as to why you believe the Updated Plan**
11 **should be approved by the Commission.**

12 A. AECC initially filed comments in this docket on September 26, 2011, in
13 response to the proposed EE implementation plans filed by TEP in 2011. AECC
14 strongly opposed TEP's 2011 EE proposal (as revised on August 23, 2011) in
15 which TEP requested a five-fold increase in its Demand Side Management
16 Surcharge ("DSMS"), from \$.001249/kWh to \$.006343/kWh. Using FERC
17 Form 1 data, I estimated that TEP's 2011 EE proposal would have increased
18 average overall rates by 5.3% for Residential customers, 4.6% for small
19 commercial customers, 6.2% for large commercial customers, 7.8% for industrial
20 customers, and 9.0% for mining customers. When added to the existing DSMS,
21 the resulting DSMS as a share of customer bills would have ranged from 5.4% for
22 small commercial customers to 9.0% for industrial customers – and up to 10.3%
23 for mining customers.

1 AECC argued that such a rate impact would be dramatic and
2 unreasonable; in lieu of TEP's EE proposal, AECC recommended that the
3 Commission adopt a uniform percentage DSMS that would not exceed 3%, which
4 was more in line with the DSM riders adopted in other western states. AECC
5 also opposed other features of TEP's 2011 EE proposal, including a program
6 implementation level that was designed to overshoot the Commission's energy
7 efficiency targets, a proposed expanded performance incentive payment to TEP,
8 and a proposed Authorized Revenue Requirement True-Up ("ARRT") of \$16.8
9 million, which AECC viewed to be an improper rate increase that violated the
10 terms of the 2008 Settlement Agreement in Docket No. E-01933A-07-0402.

11 The Commission wisely did not adopt TEP's 2011 EE proposal, but gave
12 stakeholders an opportunity to engage in discussions to possibly craft a modified
13 proposal that better addressed these and other concerns. AECC participated in the
14 ensuing discussions and largely supported the resulting Modified Implementation
15 Plan filed by TEP on January 31, 2012 – with one major exception: the cost.

16 The Modified Implementation Plan included the following structural
17 improvements relative to TEP's 2011 EE proposal:

- 18 • The proposed overall budget and rate increase were significantly reduced.
- 19 • The DSMS rate design for non-Residential customers was made more
20 equitable by changing it to an equal percentage surcharge.
- 21 • The structure of TEP's incentive proposal was modified, while the
22 proposed overall funding for the incentive was reduced.
- 23 • The proposal for recovery of ARRT was withdrawn.

1 These structural improvements notwithstanding, AECC remained opposed
2 to the cost impacts on customers that would result from the Modified
3 Implementation Plan, which was proposed to have a DSMS equal to \$.003608 per
4 kWh for Residential customers and 4.19% for non-Residential customers.

5 The Updated Plan filed by TEP on May 2, 2012 satisfactorily addresses
6 the cost concern raised by AECC by reducing the overall cost to customers
7 relative to the Modified EE Plan. Specifically, the Updated Plan proposes a
8 DSMS of \$.002497 per kWh for Residential customers and 2.86% for non-
9 Residential customers. (Note that in deriving the DSMS of 2.86% for non-
10 Residential customers, TEP allocates costs to the non-Residential group as a
11 whole using the same \$.002497 per kWh rate used for Residential customers.)
12 In finding a way to reduce program costs, TEP is proposing to reduce its
13 requested performance incentive from \$7.2 million in the Modified
14 Implementation Plan to \$3.3 million in 2012 in the Updated Plan with a cap of
15 \$3.9 million. While this outcome still represents a rate increase compared to the
16 current DSMS, the DSMS resulting from the Updated Plan would be in line with
17 DSM surcharges in other western states, and would strike a reasonable balance
18 between meeting the Commission's goals of improved energy efficiency while
19 being mindful of the cost impacts on customers of funding energy efficiency
20 programs through a surcharge.

21
22 **DSMS RATE DESIGN**

23 **Q. Why do you support the equal percentage rate design for non-Residential**
24 **customers?**

1 A. An equal percentage approach is fairer than the current cents/kWh rate
2 design because it makes the cost of funding EE programs proportionate to each
3 non-Residential customer's bill. Any individual customer's contribution to EE
4 program funding through a surcharge is not a direct purchase of energy or
5 demand, but a contribution to programs and overhead costs. It makes more sense
6 for funding of this sort to be proportionate to the customer's energy costs, rather
7 than charged on an energy-unit basis because a proportionate surcharge better
8 reflects the potential benefits the customer might receive as a result of EE
9 programs. It therefore strikes a more reasonable balance between the costs
10 charged to customers for EE programs and the potential benefits they might
11 receive.

12 Further, a percentage surcharge to underwrite program costs is also more
13 transparent than the cents/kWh rate. For example, as I discussed above, the
14 cents/kWh DSMS surcharge as originally proposed by TEP would have been
15 equivalent to 5.4% to 10.3% of customers' bills, depending on the type of
16 customer. This widely disparate rate impact – and EE program cost burden – is
17 masked when the DSMS is designed as a cents/kWh charge. A percentage rider is
18 more immediately and directly translatable to the customer.

19 **Q. Do other western states recover EE program costs through a percentage-of-**
20 **bill rider?**

21 A. Yes. Percentage-of-bill riders are used in Idaho, Utah, Wyoming, and
22 New Mexico. The comparable EE surcharge rates in effect in these states are
23 shown below in Table KCH-1.

Table KCH-1

Percentage DSM/EE Riders in Western States		
<u>Utility</u>	<u>DSM/EE Rider</u>	<u>Effective Date</u>
El Paso Electric (New Mexico)	2.9167%	4/1/2012
Idaho Power	4.00%	1/1/2012
Public Service Co. of New Mexico	2.553%	12/1/2011
Rocky Mountain Power (Idaho)	3.40%	12/29/2010
Rocky Mountain Power (Utah)	3.21% (Industrial)	2/1/2012
Rocky Mountain Power (Wyoming)	0.90% (Industrial)	3/1/2012

IMPORTANCE OF CONSIDERING RATE IMPACTS FROM FUNDING EE PROGRAMS

Q. Why is it important to consider rate impacts from funding EE programs even if energy efficiency is cost effective?

A. Even if energy efficiency is cost-effective it is still important to consider the importance of short-term rate impacts. When EE programs pass the standard tests used to determine cost effectiveness it may be tempting to become complacent about the potential short-term rate impacts of the energy efficiency investments. So long as an investment is cost effective, the argument goes, society is better off if the investment is made, so we should strive to make the incremental investment capital available. What sometimes gets overlooked in this situation is that EE cost-effectiveness is measured (properly) over the life of the

1 investment by comparing it to the cost of supply-side alternatives. Yet, the costs
2 of the supply-side alternatives with which EE competes are recovered from
3 customers in a very different manner than the cost of efficiency investments:
4 supply side costs are recovered from customers over the life of the investment,
5 e.g., 35 years, smoothing out the rate impact over time, whereas efficiency
6 investment costs typically are recovered in full from customers by the utility
7 upfront, i.e., expensed in a single year. This mismatch between cost recovery
8 periods of supply-side and demand-side resources explains, in part, why EE
9 efficiency that is cost effective can nevertheless cause unreasonable rate impacts
10 in certain situations. Add to this the fact that utility energy efficiency programs
11 are fundamentally structured as cross subsidies among individual customers, and
12 we come to the obvious (but sometimes overlooked) conclusion that short-term
13 rate impacts do matter.

14 15 **CUSTOMER REQUESTS FOR WAIVERS**

16 **Q. In supporting approval of the Updated Plan, is AECC agreeing to waive the**
17 **ability of any individual AECC member from seeking a waiver or exemption**
18 **from the Commission with respect to participating in and funding TEP EE**
19 **programs?**

20 **A.** No. AECC supports the Updated Plan as the most reasonable EE plan
21 option presented to the Commission in this docket. In supporting approval of the
22 Updated Plan, AECC is not intending to waive the ability of any individual AECC
23 member (or any other customer) from seeking a waiver or exemption from the
24 Commission with respect to participating in and funding TEP EE programs.

1 Specific circumstances may warrant such waivers or exemptions. Any such
2 requests should be considered on their particular merits.

3 **Q. Does this conclude your direct testimony?**

4 **A. Yes, it does.**